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SENSITIVE
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SUBJECT: SCENESETTER FOR CODEL SCHIFF'S VISIT TO
AZERBAIJAN, MAY 23-24

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¶1. (SBU) Azerbaijan's pro-Western foreign policy orientation, geopolitical setting -- sandwiched between Iran and Russia -- and ability to provide alternative energy supplies to Europe make it an important U.S. partner. It is in our interests to have a reforming, stable, pro-western Azerbaijan. Our bilateral agenda with Azerbaijan includes three interdependent interests: diversifying European energy supplies, promoting political and economic reform, and extending our security cooperation. Your visit comes in the wake of several public bilateral disagreements, including Azerbaijani frustration with the OSCE Minsk Group Co-Chairs' "no" vote on Azerbaijan's UN General Assembly resolution regarding Nagorno-Karabakh. We hope your visit will be an opportunity to reinforce the message of Azerbaijan's growing role as a strategic partner for the U.S. and the need to continue making mutual progress in our three core interests.

Nagorno-Karabakh

¶2. (SBU) The Nagorno-Karabakh (NK) conflict is Azerbaijan's top domestic and foreign policy priority, and the sole issue that unites Azerbaijani citizens across the political spectrum. Azerbaijanis seek the return of Nagorno-Karabakh and the seven surrounding territories; from their perspective, any solution to the conflict must preserve Azerbaijan's territorial integrity. The GOAJ's position on NK is to offer the highest degree of autonomy possible within Azerbaijan's territorial integrity. Since 2004, President Aliyev and Foreign Minister Mammadyarov have been involved in intensive negotiations under the auspices of the OSCE Minsk Group, centered around Basic Principles that continue to be refined by both parties. Presidents Aliyev and Sargsyan are scheduled to meet next on the margins on a June 6-8 CIS summit. Although the Azerbaijani Government remains committed to the Minsk Group peace process, there are signs that the Azerbaijani government and public are increasingly frustrated by what they perceive as a lack of progress in the negotiations. The Azerbaijani Government was extremely disappointed by the Co-Chairs' "no" vote on Azerbaijan's UNGA resolution regarding Nagorno-Karabakh and continues to express its concerns in both public and private fora.

Energy Links Azerbaijan to the West

13. (SBU) Azerbaijan is a crucial link in the East-West energy corridor that aims to diversify Europe's energy supply. U.S.-Azerbaijan cooperation was critical in realizing the Baku-Tbilisi-Ceyhan (BTC) pipeline project, which in July 2006 delivered its first oil to Ceyhan, Turkey.

Azerbaijan's ability to transit gas to Europe increasingly is the focus of our bilateral energy discussions. With up to one trillion cubic meters in new gas reserves and the political will to bring them to European markets, Azerbaijan's gas could enhance European energy security. At the same time, Azerbaijan faces pressure from Iran and Russia not to be too closely linked to the West. Both Tehran and Moscow oppose Azerbaijan playing a supplier and transit role for sending Caspian oil and gas to Europe. In your meetings with GOAJ officials, conveying the message that the U.S. Congress is grateful for Azerbaijan's role in diversifying Europe's energy supplies -- despite regional pressures -- will reinforce broader U.S. efforts to let the government know that Azerbaijan plays an important regional role.

Robust Security Cooperation

14. (SBU) Azerbaijan is a steadfast partner in U.S. counterterrorist efforts. In Iraq, 150 Azerbaijani (Shiite Muslim) infantry troops stand alongside U.S. Marines guarding the Haditha Dam. Azerbaijan recently announced plans to increase its military and civilian presence in Afghanistan, including 90 troops, PRT contributions, and new training programs for Afghan security forces. Azerbaijan provides unlimited over-flight and landing rights for Coalition aircraft bound for Iraq and Afghanistan, as

well as strong information sharing and law enforcement cooperation in fighting terror.

15. (SBU) Azerbaijan is an active member of NATO's Partnership for Peace and is working to bring its armed forces to NATO standards through its second NATO Individual Partnership Action Plan (IPAP). Azerbaijan's first IPAP began in 2005, promoting defense sector reforms and Azerbaijan's interoperability with NATO. The IPAP is a good umbrella for Azerbaijan-NATO cooperation, although with a keen eye to its neighbors, the GOAJ often sends nuanced public signals on the question of whether it wants to join NATO eventually. The U.S. works extensively with the Azerbaijani Navy and Coast Guard to increase Azerbaijan's interdiction capabilities against proliferation and terrorist threats on the Caspian Sea.

16. (SBU) Security cooperation is one of the strongest aspects of our bilateral relationship. In your meetings with Azerbaijani officials, it would be helpful to thank them for their consistently strong support, despite Iran and Russia's pressure against such cooperation. Azerbaijani officials may tell you that the ongoing Nagorno-Karabakh (NK) conflict and Section 907 of the Freedom Support Act restrain our cooperation. According to Section 907 of the Freedom Support Act of 1992 (P.L. 102-511), the U.S. is limited in the types of aid it can provide to Azerbaijan because of the ongoing NK conflict. Since 2001, however, the U.S. Congress has granted the President the authority to waive Section 907 on national security grounds, which President Bush has done on an annual basis.

Promoting Reform is Tough Work

17. (SBU) Getting the GOAJ to undertake substantive political and economic reform is an ongoing challenge that mirrors difficulties in most other post-Soviet states. The U.S. engages with the Azerbaijani Government at all levels, arguing that our three core interests are mutually reinforcing and interdependent. Cooperation in the areas of security or energy cannot be divorced from Azerbaijan making the right steps toward reform. One of the key challenges is that many in the government do not perceive reforms as

serving their immediate, personal, short-term interests. We seek to convince these officials that taking difficult reforms underpin Azerbaijan's long-term prosperity, regional influence, and stability.

¶8. (SBU) Through its membership in the OSCE and Council of Europe, its partnership with NATO and its WTO aspirations, Azerbaijan has pledged to make the far-reaching, systemic political and economic reforms needed to ensure its long-term stability and prosperity. Azerbaijan's democratic and economic reform record, however, is poor, hamstrung by an entrenched Soviet-era bureaucracy, endemic corruption and weak democratic institutions. Azerbaijan's October 2008 presidential election presents an important opportunity for Azerbaijan to demonstrate its commitment to democratic reform, and the U.S. Government is engaged in an intensive effort - including USD 3.2 million in technical assistance - to promote the conditions necessary for a free and fair election. The Government is considering changes to the electoral code that could improve some aspects of the electoral process, but key changes must also be made in the pre-election environment.

¶9. (SBU) We are concerned by a trend of increased government pressure against the media and critics of the government. The media environment is heavily restrictive, with transparently implausible criminal court cases against journalists and violent attacks against journalists that have gone unprosecuted and unpunished. Most Azerbaijanis argue that the media's ability to criticize or question government policies has significantly deteriorated in the last year. President Aliyev, however at the end of 2007, pardoned 119 prisoners -- several of whom (including five high-profile journalists) appeared to have been jailed because of their criticism of the government. It would be helpful to acknowledge the importance of the pardon as a first step toward allowing a more robust and critical press; we hope the government will do more.

¶10. (SBU) In addition to the problem of media freedom, the government since the 2005 elections has restricted the ability for peaceful groups to assemble, particularly in central areas of Baku. Moreover, it has put pressure on opposition political parties by restricting their ability to rent office space, hold meetings, raise funds and carry out normal political activities. Civil society representatives also complain that they feel increasingly under fire.

¶11. (SBU) The Azerbaijani Parliament, or Milli Mejlis (National Council), presents an interesting opportunity for further democratic development. There are reform-minded Members of Parliament who seek to increase Parliament's level of activity, transparency and responsiveness to constituents. USAID is implementing a multi-year program that seeks to increase Parliament's technical capacity to provide oversight and establish links between MPs and their constituents. Reform-minded MPs face several challenges, including constitutional limits on the powers of Parliament and political resistance within the Presidential Apparatus to the idea of a more empowered Parliament. Some of the key MPs have approached us several times, requesting greater interaction with the U.S. Congress; your meeting will be an excellent basis for continued cooperation with the aim of understanding and strengthening the function of the Milli Mejlis as a key democratic institution.

Rapid Economic Growth

¶12. (SBU) With GDP growth of 25 percent in 2007, Azerbaijan has one of the fastest growing economies in the world,

driven nearly entirely by the energy sector. The government's economic planning, and the country's judicial, regulatory and banking sectors are weak and ill-prepared to manage this enormous influx of revenue. Corruption is pervasive throughout Azerbaijan. Significant institutional reform and capacity-building are required to manage the stable growth of Azerbaijan's economy and to prevent Azerbaijan from succumbing to the "oil curse" experienced by many other energy producers.

¶13. (SBU) The U.S. is providing technical assistance to help Azerbaijan manage this transition, primarily through USAID's Trade and Investment Program, anti-corruption programs, rule of law programs and a program to help strengthen the GOAJ's consolidated budgeting process. Moreover, we believe the World Trade Organization (WTO) accession process, for which we are providing technical assistance, is the key vehicle through which we can promote implementation of successful economic reform that will keep Azerbaijan's development on a stable path. The government has submitted important, WTO-compliant draft legislation to Geneva and is working with us on plan to co-finance the Trade and Investment Program, an important signal of its commitment to WTO accession and economic reforms.

Our Three Interests

¶14. (SBU) In your meetings with officials, we believe it is important to highlight the interrelationship of our three interests. Appealing to the government's desire to project Azerbaijan as a regional leader, Azerbaijan can accomplish this goal in part through opening up the political and economic space. The October 2008 presidential election presents a tremendous opportunity for President Aliyev to burnish Azerbaijan's democratic credentials by allowing the opposition, civil society, and the media more political space. As the Embassy routinely tells the government and the general public, the U.S. support the process of a free and fair election and our concerns will focus most heavily on the process over the result.

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